

REPORT OF THE AUDIT COMMITTEE No. 3, 2025/26

FULL COUNCIL 16 March 2026

Chair: Councillor Erdal Dogan Deputy Chair: Councillor Cathy Brennan

1. INTRODUCTION

1.1. The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve treasury management reports on a semi-annual and annual basis.

1.2. The Council's Treasury Management Strategy for 2025/26 was approved at a full Council meeting on 3rd March 2025. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

1.3. The report provides an update to the Audit Committee on the Council's treasury management activities and performance for the six months ending 31st December 2025, in accordance with the CIPFA Code.

2. TREASURY MANAGEMENT QTR3 REPORT 2025/26

We considered the Treasury Management QTR3 Report 2025/26 and discussed the following:

- In relation to the Civic Centre, this was just one of the capital schemes within the overall capital program and the full details of this was not included in the report, but had been reported in the quarterly report that was submitted to Cabinet and to the Overview and Scrutiny Committee. There had been no 'slippage' in relation to the Civic Centre, but there had been some around schools' estate, roads and some around the regeneration schemes.
- In relation to the LOBO loans, the Council had £100 million worth of it, before reducing it down to £50 million. This consisted of £40 million with one provider and £10 million with another. There was also a possibility that the Council might buy off the £40 million. The Council periodically engaged with its advisers, ArlingClose, who acted on the Council's behalf and approached the providers of the loans. So far, the response from the providers was that buying out would be quite

expensive and not in the Council's interest. The Council periodically engaged with its advisers to progress the matter.

- In relation to exceptional financial support, there was a £10 million loan related to the financial year 2024/25. When the Council closed the accounts, it was £10 million short. In 2025/26, when the Council set its budget and it got the in-principal agreement in March 2025, this was for £37 million. When the Council forecast its position in 2025/26, the Council forecast an overspend on top of the £37 million. The quarter 3 report submitted to Cabinet and the Overview and Scrutiny Committee reported this at £19 million - a significant improvement since quarter 1. It seemed all the actions that the Council was taking was starting to have an impact. However, this position would still be £19 million higher than the £37 million. As the Council only had £37 million in-year agreed by Government, it needed to submit a revised application. At that point in time, which was around mid-December 2025, the Council thought the overspend would have been slightly higher, so it submitted an application for £54 million. On 2 March 2026, in order to set a balanced budget for 2026/27, the Council had forecast that it needed £84 million. This was still only a forecast and was based on what the Council thought were its pressures going into 2026/27. The Council's aspiration had to be to minimise the use of the £84 million as it was an in-principal agreement as Government would only give the Council what it actually needed. In 2024/25, the Council applied for £28 million of exceptional financial support. However, by the end of the year, the Council only needed £10 million. An in-principal agreement was very different to the final outcome when the accounts were closed at the end of the year.
- In relation to the PFI (Private Financial Initiative) and the leases, when the Council set the treasury management strategy statement for 2025/26 (agreed in March 2025), it did not account for the change in the accounting standard - how the Council accounted for PFI and leases. The Council had addressed this for 2026/27, but did not make the change in time before the current in-year strategy was finalised. This was why the Council had to report a 'non-compliance', because the accounting standard had changed. Overall, the Council was compliant across all of the debt. The impact of the change in reporting relative to the accounting standard had not been known then. It would have been impossible to account for it at the time.
- The five-year financial forecast that was presented to Council and the five-year Treasury Management Strategy Statement made some assumptions - similar to a worst-case scenario - around interest. The Council needed to account for interest costs associated with future exceptional financial support. It was important that the Council tried to do everything it could to keep this to a minimum. The funding could either be funded through borrowing or capital receipts. Government was very clear in the letter they sent the Council containing the in-principal agreement that they would expect the Council to look at where there could be surplus of assets to fund through capital receipts rather than defaulting to just borrowing. However, they were also clear that the Council had to honour the best value duty. Selling properties simply due to exceptional financial support would not be acceptable as

the Council needed to demonstrate and provide evidence that the assets were surplus to requirements and best value duty had been taken into account.

- In response to a query that this simply would run-down the assets of the authority, the meeting heard that the Council was engaging in good asset management. There was nothing specifically that the Council was doing around disposals or capital receipts that was specific for exceptional financial support. The approach that the Council was taking would be in line with best value duty. The Council had a duty to look at all of its assets to ensure that they were offering good value for money. Community assets could not be disposed of for purposes for exceptional financial support (EFS). Reviewing asset portfolio was part of good asset management. Even if the financial position was better, the Council would still be actively encouraging to not hold onto assets that were surplus to requirements because that would not be good value for money. The Council would ideally look at its whole estate because it would want to assure itself that it was not borrowing for EFS when it did not need to.
- The Council had disposed of community assets in the past. This meant that the Council did not have a town hall or a civic centre at present. All other properties had been released. The Civic Centre currently under renovation was a Grade II listed building and had an asbestos problem. It had to be fixed and was extremely expensive. The decision was to build an office block in the car park, so that the Council could release a number of office buildings that it had across the borough that were not fit for purpose. They would be too expensive to upgrade. The project was within budget and was being very closely monitored.
- A query was raised regarding energy supplies, international trade and other world events and the importance for the Committee to know what assets the Council had as it would need regular updated reports about the position in which it found itself. These reports should include something around the level of risk and how that had changed over a period so that informed decisions could be made. In response, the meeting heard that risk register was in place to make sure that the Committee had visibility on the risks including financial sustainability. There may need to be some reports containing more detail on specific risks.
- In relation to borrowing costs, these had been factored into the MTFS (medium-term financial strategy) which was only over a five-year period. Borrowing costs were high. A forecast of the borrowing based on the capital program over the next five-years included assumptions around exceptional financial support. The MTFS agreed by Council included the borrowing cost of the assumptions. There were still budget gaps in future years, but given what was driving the EFS requirement - statutory services, demand and price costs – the Council needed to do everything it could to bring down the EFS requirement and reduce borrowing cost. This included EFS and schemes within the capital program. If interest rates went higher, the Council would need to think about whether it would defer some of the capital expenditure to reduce some borrowing costs. A lot of the borrowing would be under

equal instalments payments. Although the loan may mature over a period of time, there would be no sudden urgent need for large amounts of cash to repay all the debt. When taking advice from ArlingClose, the Council was aware to consider the most cost-effective borrowing. This meant looking at the structure and duration of the loan. A twenty or thirty year loan would cost more because there were fewer of these on the market. This pushed up costs. The Council then factored in what it anticipated the refinancing risks to be. Given to what degree the Council could forecast, it would consider interest rates over the duration of time to when the Council would need to refinance the debt.

- The duration, but also the loan type (whether it was paid off in equal instalments every ten years or repaying the entire debt at the end) had an effect on the cost of borrowing. This, therefore, had an effect on the interest rate. The Council had structured its debt the way it did because it was trying to manage down the cost of borrowing and manage the refinancing risk. This was why the Council had shorter duration loans of a ten year EIP (Equal Instalments of Principal loans). This was the bulk of the Council's recent borrowing. This was the appropriate balance between cost and refinancing risk.
- The Council had a detailed financial model that tracked all of the borrowing that it took on when the repayments were made. It fed into the Council's cash flow position and this fed into the revenue budget. The Treasury Management Strategy Statement covered a five-year period, but the Council would be looking at almost the total length of time of all of the borrowing including ones between forty and fifty years. EFS could only be borrowed over a twenty year period, so the Council would need to have it repaid by the end of the twenty years. However, there were other forms of borrowing. For example, a loan could be taken out over a forty year period, but based on interest rates, it may not be as cost effective to borrow across forty years. It may be more cost effective to borrow across ten. However, this would mean the Council would have to refinance in ten years' time. Financial plans always took into account repayment and the additional borrowing.
- Advice from ArlingClose was taken regarding having a long-term fixed rate or a short-term fixed rate as they would have a better insight to the market and the future forecast.

3. RECOMMENDATIONS

Full Council is recommended:

1. To note the treasury management activity undertaken during the financial year to 31st December 2025 and the performance achieved which is attached as Appendix 1 to the report.
2. To note that all treasury activities were undertaken in line with the approved Treasury Management Strategy.

